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**METHODS AND STANDARDS FOR DETERMINING PAYMENT RATES
FOR SERVICES PROVIDED BY
INTERMEDIATE CARE FACILITIES FOR THE MENTALLY RETARDED
(ICFs/MR) WHICH ARE NOT STATE-OWNED**

SECTION 1.000 INTRODUCTION.

Section 1.010 General purpose. The purpose of Minnesota's methods and standards for determining medical assistance payment rates for ICFs/MR that are not state-owned is to provide for rates in conformity with applicable state and federal laws, regulations and quality and safety standards. Minnesota has in place a public process which complies with the requirements of Section 1902(a)(13)(A) of the Social Security Act. In determining the rates, the Department of Human Services takes into account the provider's historical costs, the size of the facility, and other factors.

Facilities participating in the Minnesota Medical Assistance Program are paid by a prospective rate-setting methodology. This methodology, established in Minnesota statutes and rules, is described in this attachment. This attachment describes policies concerning cost classification and allocation procedures, both allowable and nonallowable costs, reporting requirements, cost allocation and classification principles, appeal procedures, and rate-setting procedures for newly established facilities or approved facility Class A to Class B bed conversions.

Section 1.020 Overview. A very brief description of the overall rate setting mechanism will be helpful. Cost reports are submitted annually by ICFs/MR for the common reporting year of January 1 to December 31. The common rate year of October 1 to September 30, lags the report year by nine months. The submitted cost reports are desk audited to determine allowable operating costs and subject to various cost category limitations. Similarly, property costs including depreciation, interest, and lease expenses are reviewed, and subjected to cost limitations such as investment limits, debt limits, interest rate limits, and down payment requirements. The property rate may also be adjusted for certain life safety code changes. Payment rates are set for the rate year of October 1 to September 30 following the cost reporting year by adjusting per diem costs for inflation. These payment rates are subject to appeal, and may be adjusted retrospectively for field audit and appeal resolutions.

The total payment rate for ICFs/MR is the sum of the total operating cost payment rate, the special operating cost payment rate, and the property related payment rate. The rate may also include a program operating cost adjusted for recognized deficiencies or need determinations resulting from governmental programmatic reviews. These three rates can be summarized as follows:

A. Operating costs.

(1) Program operating costs. These include such items as program staff salaries, nursing salaries, applicable fringe benefits and payroll taxes, supplies, staff training, purchased services, resident transportation, vacations, and membership fees, as well as some repairs related to resident behaviors.

(2) Maintenance costs. These include dietary staff salaries, supplies, and raw food, housekeeping costs, laundry and linen costs, plant operating and maintenance costs such as salaries, utilities, and repairs, and applicable fringe benefits and payroll taxes.

(3) Administrative costs. These include administration, housekeeping and clerical salaries, office supplies, professional development, working capital interest expense, general facility costs, management/consulting services, legal and accounting fees, and applicable fringe benefits and payroll taxes.

(4) Wage equity salary cost adjustment of 3% for the period July 1, 1998 to September 30, 2000. The adjustment is subject to retroactive reviews with recovery of overpayments.

B. Special operating costs.

(1) Real estate taxes and special assessments

(2) Real estate insurance

(3) License fees.

(4) Professional liability insurance.

(5) Amortization of reopening costs.

(6) Training and habilitation costs.

(7) Property modifications or equipment cost allowed as life safety code improvements.

Effective October 1, 1995, real estate insurance and professional liability insurance costs are not considered in computing the payment rate for special operating costs. For purposes of reimbursement, these are included with the general operating costs.

C. Property related costs.

- (1) Allowance for depreciation of capital assets (does not include land).
- (2) Capital debt interest expenses.
- (3) Rental and lease payments.
- (4) Other payments as permitted under Sections 9.050, 9.060, 10.000, 14.070 and 14.100 of this attachment.

Section 1.030 **Definitions.** For the purposes of Sections 2.000 to 17.060, the following terms have the meanings given them in this section.

Addition. "Addition" means an extension, enlargement, or expansion of the physical plant of an ICF/MR for the purpose of increasing the number of licensed beds or improving resident care.

Applicable credit. "Applicable credit" means a receipt of funds or an expense reduction as a result of public grants, purchase discounts, allowances, rebates, refunds, adjustments for overcharges, insurance claims settlements, recovered bad debts, or any other adjustment or income which reduce the costs claimed by the facility.

Capacity days. "Capacity days" means the total number of licensed beds in the facility multiplied by the number of days in the reporting year.

Capital assets. "Capital assets" means a facility's land, physical plant, land improvements, depreciable equipment, leasehold improvements, capitalized improvements and repairs, and all additions to or replacement of those assets.

Capital debt. "Capital debt" means a debt incurred by the facility for the purpose of purchasing a capital asset, to the extent that the proceeds of the debt were actually applied to purchase the capital asset including points, financing charges, and bond premiums or discounts. Capital debt includes debt incurred for the purpose of refinancing a capital debt.

Capital debt interest expense. "Capital debt interest expense" means interest payable under the terms of a capital debt, amortization of a bond premium or discounts, and amortization of financing charges.

Class A beds. "Class A beds" means beds licensed for ambulatory and mobile persons who are capable of taking appropriate action for self-preservation under emergency conditions as determined by state and federal licensing law.

Class B beds. "Class B beds" means beds for ambulatory, nonambulatory, mobile, or nonmobile persons who are not mentally or physically capable of taking appropriate action for self-preservation under emergency conditions as determined by state and federal licensing law.

Commissioner. "Commissioner" means the commissioner of the Minnesota Department of Human Services.

Cost categories. "Cost categories" means any one of the groupings of costs as defined in Sections 6.010 through 6.060.

Cost report. "Cost report" means the document and supporting materials specified by the commissioner and submitted by the provider for the facility. The cost report includes the statistical, financial, and other relevant information required in Sections 2.010 through 2.070.

Department. "Department" means the Minnesota Department of Human Services.

Depreciable equipment. "Depreciable equipment" means the standard moveable resident care equipment and support service equipment generally used in an ICF/MR. Depreciable equipment includes the equipment specified in the major moveable equipment table of the depreciation guidelines.

Depreciation guidelines. "Depreciation guidelines" means The Estimated Useful Lives of Depreciable Hospital Assets, issued by the American Hospital Association, 840 North Lake Shore Drive, Chicago, Illinois (Chicago: 1983). The depreciation guidelines are incorporated by reference and are available for reference at the Minnesota State Law Library, Minnesota Judicial Center, 25 Constitution Avenue, Saint Paul, Minnesota, 55155. Only the 1983 publication will be used and will not change.

Desk audit. "Desk audit" means the determination of the facility's payment rate based on the commissioner's review and analysis of required reports, supporting documentation, and work sheets submitted by the provider.

Direct cost. "Direct cost" means a cost that can be identified within a specific cost category without the use of allocation methods.

Equity. "Equity" means the historical capital cost of the facility's capital assets subject to the limitations in Section 9.010, item C, and Section 9.030, item H, decreased by the outstanding principal amount of the capital debts, and the historical capital cost of any capital assets retired from service, sold, or other wise disposed. Increases in the principal amount of existing capital debts due to refinancing, or new capital debts due to a change of ownership or reorganization of provider entity for which the increase in interest expense is disallowed according to Section 9.030, item G are not included in the outstanding principal amount of the capital debts for the purpose of calculating equity.

Facility. "Facility" or "ICF/MR" means a program licensed to serve persons with mental retardation or related conditions under state laws, and a physical plant licensed as a supervised living facility under state laws, which together are certified by the Minnesota Department of Health as an intermediate care facility for the mentally retarded.

Field audit. "Field audit" means the on-site examination, verification, and review of the cost report, financial records, statistical records, and related supporting documentation of the provider or provider group.

Fringe benefits. "Fringe benefits" means workers' compensation insurance (including self-insurance plans described in Section 4.170), group health insurance, disability insurance, dental insurance, group life insurance, and retirement benefits or plans.

Funded depreciation. "Funded depreciation" means the sum deposited in a separate account as determined in accordance with Section 9.010, item E, and that must be applied only to reduce or liquidate capital debts or replace capital assets.

Historical capital cost. "Historical capital cost" means:

A. for a capital asset first placed in use in the medical assistance program on or after January 1, 1984, the cost incurred to construct or purchase the capital asset by the person or entity owning the capital asset on the date it was first placed in use in the medical assistance program; and

B. for a capital asset first placed in use in the medical assistance program prior to January 1, 1984, the cost originally incurred to construct or purchase the capital asset by the person or entity owning the capital asset on December 31, 1983.

Historical operating costs. "Historical operating costs" means the allowable operating costs incurred by the facility during the reporting year immediately preceding the rate year for which the payment rate becomes effective after the commissioner has reviewed those costs and

determined them to be allowable costs under the medical assistance program and after the application of Sections 1.010 to 17.060.

Indirect cost. "Indirect cost" means a cost incurred for a common or joint purpose of benefitting more than one cost category or not readily assignable to the cost categories benefitted.

Land. "Land" means the land owned or leased by the provider or provider group and which is necessary for resident care.

Land improvement. "Land improvement" means an improvement to the land surrounding the facility as specified in the land improvements table of the depreciation guidelines, if the land improvement is the responsibility of the provider.

Leasehold improvement. "Leasehold improvement" means an improvement to property leased by the provider for the use of the facility that reverts to the owner of the property upon termination of the lease.

Medical assistance program. "Medical assistance program" means the program that reimburses the cost of health care provided to eligible residents pursuant to state and federal law.

Necessary service. "Necessary service" means a function pertinent to the facility's operation that if not performed by the assigned individual would have required the provider to employ or assign another individual to perform it.

Payroll taxes. "Payroll taxes" means the employer's share of social security withholding taxes, and state and federal unemployment compensation taxes or costs.

Physical plant. "Physical plant" means the building or buildings in which a program licensed to provide services to persons with mental retardation or related conditions under state law is located, and all equipment affixed to the building and not easily subject to transfer as specified in the building and fixed equipment tables of the depreciation guidelines, and auxiliary buildings in the nature of sheds, garages, and storage buildings located on the same site if related to resident care, and the allocated portion of office space if the office is located in that facility. Physical plant does not include buildings or portions of buildings used by central, affiliate, or corporate offices if those offices are not located in that facility.

Private paying resident. "Private paying resident" means a facility resident whose care is not paid for by the medical assistance program, cost of care program, or the